



ALLIANCE ISLAMIC BANK

Alliance Islamic Bank Berhad 200701018870 (776882-V)

BASEL II PILLAR 3 REPORT

FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2020

ALLIANCE ISLAMIC BANK BERHAD
200701018870 (776882-V)

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Overview

The Bank's Pillar 3 Disclosure is governed by the Bank's Pillar 3 Disclosure Policy. This policy outlines the minimum disclosure standards, approach for determining the appropriateness of information disclosed and internal controls over the disclosure process.

1.0 Scope of Application

The Pillar 3 Disclosure provided in this document is in respect of the Bank, which is involved in Islamic banking financial services.

There are no significant restrictions or other major impediments on transfer of funds or regulatory capital between the Bank and its holding company, Alliance Bank Malaysia Berhad.

There were no capital deficiencies in the Bank as at the financial period end.

The capital adequacy information is computed in accordance with Capital Adequacy Framework for Islamic Banks. The Bank has adopted the Standardised Approach for credit risk and market risk; and the Basic Indicator Approach for operational risk.

2.0 Capital

The capital management of the Bank is under the purview of Alliance Bank Group's ("the Group") capital management with the objectives:

- (i) To maintain sufficient capital to meet the regulatory capital requirements as set forth by BNM;
- (ii) To maintain sufficient capital to support the Bank's risk appetite and facilitate future business growth; and
- (iii) To meet the expectations of key stakeholders, including shareholders, investors, regulators and rating agencies.

In line with this, the Bank aims to maintain capital adequacy ratios that are above the regulatory requirement, while balancing shareholders' desire for sustainable returns and prudential standards.

The Bank carries out stress testing to estimate the potential impact of extreme but plausible events on the Bank's earnings, statement of financial position and capital. The results of the stress tests are to facilitate the formulation of contingency plans where warranted. The results of the stress tests are tabled to the Group Risk Management Committee ("GRMC") for approval.

2.0 Capital (cont'd.)

2.1 Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	30 September 2020	31 March 2020
<u>Before deducting proposed dividends</u>		
CET I Capital ratio	11.419%	10.507%
Tier I capital ratio	12.534%	11.617%
Total capital ratio	<u>15.153%</u>	<u>14.233%</u>
<u>After deducting proposed dividends</u>		
CET I Capital ratio	11.419%	10.507%
Tier I capital ratio	12.534%	11.617%
Total capital ratio	<u>15.153%</u>	<u>14.233%</u>

The Bank's capital ratios comply with the prescribed capital adequacy ratios under BNM's Capital Adequacy Framework for Islamic Banks.

2.2 Capital Structure

The following tables present the components of Common Equity Tier I ("CET I"), Tier I and Tier II capital:

	30 September 2020 RM'000	31 March 2020 RM'000
<u>CET I Capital</u>		
Paid-up share capital	400,000	400,000
Retained profits	579,091	523,425
Regulatory reserves	-	34,748
Financial investments at fair value through other comprehensive income (FVOCI) reserves	87,747	38,888
	<u>1,066,838</u>	<u>997,061</u>
Less: Regulatory adjustments		
- Intangibles assets	(750)	(825)
- 55% of FVOCI reserves	(48,261)	(21,388)
- Regulatory reserves	-	(34,748)
Total CET I Capital	<u>1,017,827</u>	<u>940,100</u>
Additional Tier 1 Sukuk Wakalah	99,353	99,271
Total Additional Tier 1 Capital	<u>99,353</u>	<u>99,271</u>
Total Tier I Capital	<u>1,117,180</u>	<u>1,039,371</u>
<u>Tier II Capital</u>		
Subordinated Sukuk Murabahah	129,783	129,733
Expected credit losses * and regulatory reserves	103,681	104,399
Total Tier II Capital	<u>233,464</u>	<u>234,132</u>
Total Capital	<u>1,350,644</u>	<u>1,273,503</u>

*Expected credit losses for stage 1 and stage 2 only.

2.0 Capital (cont'd.)

2.3 Risk Weighted Assets ("RWA") and Capital Requirements

Regulatory Capital Requirements

The following table presents the minimum regulatory capital requirements of the Bank:

30 September 2020 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	2,224,373	2,224,373	-	-
Public sector entities	314,385	314,385	62,877	5,030
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks	14,525	14,525	3,114	249
Takaful Companies, Securities Firms and Fund Managers	3,738	3,738	3,738	299
Corporates	4,183,261	4,108,944	3,166,805	253,344
Regulatory retail	2,624,134	2,549,235	2,129,063	170,325
Residential Real Estate ("RRE") financing	4,808,919	4,808,650	2,109,886	168,791
Higher risk assets	656	656	984	79
Other assets	52,169	52,169	52,169	4,174
Defaulted exposures	135,960	134,483	126,113	10,089
Total on-balance sheet exposures	14,362,120	14,211,158	7,654,749	612,380
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	798,422	738,126	639,755	51,180
Defaulted exposures	2	2	3	-
Total off-balance sheet exposures	798,424	738,128	639,758	51,180
Total on and off-balance sheet exposures	15,160,544	14,949,286	8,294,507	663,560
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Profit rate risk	-	-	-	-
Foreign currency risk	12	(50)	50	4
	12	(50)		
Option risk			-	-
Total			50	4
(iii) Operational Risk	-	-	618,965	49,517
Total	15,160,544	14,949,286	8,913,522	713,081

2.0 Capital (cont'd.)

2.3 RWA and Capital Requirements (cont'd.)

Regulatory Capital Requirements (cont'd.)

The following table presents the minimum regulatory capital requirements of the Bank (cont'd.):

31 March 2020 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000								
(i) Credit Risk												
On-balance sheet exposures:												
Sovereigns/Central banks	1,950,709	1,950,709	-	-								
Public sector entities	301,634	301,634	60,326	4,826								
Banks, DFIs and Multilateral Development Banks	3	3	1	-								
Takaful Companies, Securities Firms and Fund Managers	6,862	6,862	6,862	549								
Corporates	4,525,419	4,414,757	3,510,776	280,862								
Regulatory retail	2,505,734	2,431,416	2,031,524	162,522								
RRE financing	4,607,974	4,607,670	1,960,583	156,847								
Higher risk assets	221	221	331	26								
Other assets	57,597	57,597	57,597	4,608								
Defaulted exposures	157,942	156,960	141,354	11,308								
Total on-balance sheet exposures	14,114,095	13,927,829	7,769,354	621,548								
Off-balance sheet exposures:												
Credit-related off-balance sheet exposures	769,323	712,884	582,278	46,582								
Defaulted exposures	202	202	298	24								
Total off-balance sheet exposures	769,525	713,086	582,576	46,606								
Total on and off-balance sheet exposures	14,883,620	14,640,915	8,351,930	668,154								
(ii) Market Risk (Note 4.0)												
	<table border="1"> <thead> <tr> <th>Long Position</th> <th>Short Position</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> </tbody> </table>	Long Position	Short Position	-	-	-	-	-	-			
Long Position	Short Position											
-	-											
-	-											
-	-											
Profit rate risk			-	-								
Foreign currency risk			-	-								
Option risk			-	-								
Total			-	-								
(iii) Operational Risk	-	-	595,399	47,632								
Total	14,883,620	14,640,915	8,947,329	715,786								

Note:

The Bank does not use Profit-sharing Investment Account ("PSIA") as a risk absorbent mechanism.

The Bank does not have exposure to any Large Exposure Risk for equity holdings specified in BNM's Guidelines on Investment in Shares, Interest-in-Shares and Collective Investment Schemes.

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3.0 Credit Risk (cont'd.)

3.1 Distribution of Credit Exposures

(a) Geographical Distribution

The following tables represent the Bank's major types of gross credit exposure by geographical distribution. Exposures are allocated to the region in which the branch is located and are disclosed before taking into account of any collateral held or other credit enhancements and after allowance for impairment where applicable.

	Geographical region					
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Total RM'000
30 September 2020						
Cash and short-term funds (exclude cash in hand)	-	859,491	-	-	-	859,491
Financial investments at fair value through other comprehensive income	-	2,411,634	-	-	-	2,411,634
Financial investments at amortised cost	-	294,423	-	-	-	294,423
Financing and advances (exclude sales commission and handling fees)	900,335	7,428,586	1,235,804	947,099	226,458	10,738,282
Statutory deposits with Bank Negara Malaysia	-	29,988	-	-	-	29,988
Total on-balance sheet	900,335	11,024,122	1,235,804	947,099	226,458	14,333,818
Contingent liabilities	17,238	228,086	24,973	5,799	3,096	279,192
Commitments	486,015	1,164,084	355,319	282,934	206,508	2,494,860
Total off-balance sheet	503,253	1,392,170	380,292	288,733	209,604	2,774,052
Total credit exposure	1,403,588	12,416,292	1,616,096	1,235,832	436,062	17,107,870

	Geographical region					
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Total RM'000
31 March 2020						
Cash and short-term funds (exclude cash in hand)	-	714,632	-	-	-	714,632
Financial investments at fair value through other comprehensive income	-	2,301,866	-	-	-	2,301,866
Financial investments at amortised cost	-	80,853	-	-	-	80,853
Financing and advances (exclude sales commission and handling fees)	957,325	7,311,649	1,270,233	886,285	319,749	10,745,241
Statutory deposits with Bank Negara Malaysia	-	219,488	-	-	-	219,488
Total on-balance sheet	957,325	10,628,488	1,270,233	886,285	319,749	14,062,080
Contingent liabilities (Note 1)	13,999	227,655	22,553	5,848	2,187	272,242
Commitments (Note 1)	383,106	1,176,199	327,493	162,101	117,404	2,166,303
Total off-balance sheet	397,105	1,403,854	350,046	167,949	119,591	2,438,545
Total credit exposure	1,354,430	12,032,342	1,620,279	1,054,234	439,340	16,500,625

Note 1:

The off-balance sheet items disclosure have been updated to align with industry practice.

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3.0 Credit Risk (cont'd.)

3.1 Distribution of Credit Exposures (cont'd.)

(b) Industry Distribution

The following table represents the Bank's major types of gross credit exposure by sector. The analysis is based on the sector in which the customers are engaged.

	Government & Central Bank RM'000	Financial, Takaful & Business Services RM'000	Transport, Storage & Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
30 September 2020								
Cash and short-term funds (exclude cash in hand)	859,491	-	-	-	-	-	-	859,491
Financial investments at fair value through other comprehensive income	1,121,262	805,103	388,455	26,539	70,275	-	-	2,411,634
Financial investments at amortised cost	213,631	80,792	-	-	-	-	-	294,423
Financing and advances (exclude sales commission and handling fees)	-	1,028,044	147,567	2,849,670	253,141	6,384,025	75,835	10,738,282
Statutory deposits with Bank Negara Malaysia	29,988	-	-	-	-	-	-	29,988
Total on-balance sheet	2,224,372	1,913,939	536,022	2,876,209	323,416	6,384,025	75,835	14,333,818
Contingent liabilities	-	21,420	5,597	191,284	60,752	2	137	279,192
Commitments	-	264,639	35,469	1,700,151	111,582	373,897	9,122	2,494,860
Total off-balance sheet	-	286,059	41,066	1,891,435	172,334	373,899	9,259	2,774,052
Total credit exposure	2,224,372	2,199,998	577,088	4,767,644	495,750	6,757,924	85,094	17,107,870

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3.0 Credit Risk (cont'd.)

3.1 Distribution of Credit Exposures (cont'd.)

(b) Industry Distribution (cont'd.)

The following table represents the Bank's major types of gross credit exposure by sector. The analysis is based on the sector in which the customers are engaged. (cont'd.)

	Government & Central Bank RM'000	Financial, Takaful & Business Services RM'000	Transport, Storage & Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
31 March 2020								
Cash and short-term funds (exclude cash in hand)	714,632	-	-	-	-	-	-	714,632
Financial investments at fair value through other comprehensive income	1,016,589	817,819	364,252	34,632	68,574	-	-	2,301,866
Financial investments at amortised cost	-	80,853	-	-	-	-	-	80,853
Financing and advances (exclude sales commission and handling fees)	-	990,389	173,954	3,084,662	265,455	6,153,479	77,302	10,745,241
Statutory deposits with Bank Negara Malaysia	219,488	-	-	-	-	-	-	219,488
Total on-balance sheet	1,950,709	1,889,061	538,206	3,119,294	334,029	6,153,479	77,302	14,062,080
Contingent liabilities (Note 1)	-	121,976	5,252	86,267	58,451	22	274	272,242
Commitments (Note 1)	-	161,696	12,195	1,287,097	100,354	597,812	7,149	2,166,303
Total off-balance sheet	-	283,672	17,447	1,373,364	158,805	597,834	7,423	2,438,545
Total credit exposure	1,950,709	2,172,733	555,653	4,492,658	492,834	6,751,313	84,725	16,500,625

Note 1:

The off-balance sheet items disclosure have been updated to align with industry practice.

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3.0 Credit Risk (cont'd.)

3.1 Distribution of Credit Exposures (cont'd.)

(c) Residual Contractual Maturity

The following table represents the residual contractual maturity for major types of gross credit exposure for on-balance sheet financial assets of the Bank:

	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1 year</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2020						
Cash and short-term funds (exclude cash in hand)	859,491	-	-	-	-	859,491
Financial investments at fair value through other comprehensive income	-	25,449	156,779	41,250	2,188,156	2,411,634
Financial investments at amortised cost	-	-	-	-	294,423	294,423
Financing and advances (exclude sales commission and handling fees)	2,261,251	496,825	173,777	24,025	7,782,404	10,738,282
Statutory deposits with Bank Negara Malaysia	-	-	-	-	29,988	29,988
Total on-balance sheet exposure	3,120,742	522,274	330,556	65,275	10,294,971	14,333,818
31 March 2020						
Cash and short-term funds (exclude cash in hand)	714,632	-	-	-	-	714,632
Financial investments at fair value through other comprehensive income	5,100	55,966	50,510	182,755	2,007,535	2,301,866
Financial investments at amortised cost	-	-	-	-	80,853	80,853
Financing and advances (exclude sales commission and handling fees)	2,467,923	637,546	160,202	52,368	7,427,202	10,745,241
Statutory deposits with Bank Negara Malaysia	-	-	-	-	219,488	219,488
Total on-balance sheet exposure	3,187,655	693,512	210,712	235,123	9,735,078	14,062,080

3.0 Credit Risk (cont'd.)

3.2 Past Due but Not Impaired Financing and Advances Analysis

Past due but not impaired financing and advances are exposures where the customers have failed to make a principal and/or profit payment when contractually due, and include exposures which are due one or more days after the contractual due date but not more than 3 months. Under MFRS9, exposures more than 30 days past due are transferred to Stage 2. For exposures that are structured to pay principal and/or profit at quarterly interval or longer, a default of payment will trigger an impairment.

The following tables represent the past due but not impaired financing and advances analysed by sector:

	30 September 2020 RM'000	31 March 2020 RM'000
Financial, takaful and business services	35,811	28,768
Transport, storage and communication	550	4,209
Agriculture, manufacturing, wholesale & retail trade	43,559	269,436
Construction	25,655	90,007
Household	496,316	589,741
Others	24,970	24,385
	<u>626,861</u>	<u>1,006,546</u>

Past due but not impaired financing and advances analysed by significant geographical areas:

	30 September 2020 RM'000	31 March 2020 RM'000
Northern region	39,337	79,891
Central region	489,572	733,420
Southern region	62,702	126,237
Sabah region	31,083	59,191
Sarawak region	4,167	7,807
	<u>626,861</u>	<u>1,006,546</u>

3.0 Credit Risk (cont'd.)

3.3 Impaired Financing and Advances Analysis and Allowance for Expected Credit Losses

Impaired financing and advances are exposures where the customers have failed to make a principal and/or profit payment for more than 3 months. In addition, where customers are deemed incapable of continuing repayment obligations, the exposures will be judgmentally impaired. Where exposures are restructured or rescheduled due to increase in credit risk, the exposures are also classified as impaired.

Impaired financing and advances analysed by sectors:

	30 September 2020 RM'000	31 March 2020 RM'000
Financial, takaful & business services	1,260	1,200
Transport, storage and communication	2,048	2,048
Agriculture, manufacturing, wholesale & retail trade	34,650	40,719
Construction	13,650	14,169
Household	141,655	174,432
Others	1	1
	<u>193,264</u>	<u>232,569</u>

Allowance for expected credit losses on financing and advances analysed by sectors:

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	ECL charged/ write-back for the period (net) RM'000	Stage 3 write-off for the period (net) RM'000
30 September 2020					
Financial, takaful & business services	2,255	4,742	343	23	-
Transport, storage & communication	296	560	2,050	12	-
Agriculture, manufacturing, wholesale & retail trade	9,590	14,267	9,716	759	(1,875)
Construction	603	12,487	11,994	26	(522)
Household	66,704	84,834	33,192	(4,170)	(9,697)
Others	200	2,086	1	-	-
	<u>79,648</u>	<u>118,976</u>	<u>57,296</u>	<u>(3,350)</u>	<u>(12,094)</u>

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	ECL charged/ write-back for the year (net) RM'000	Stage 3 write-off for the year (net) RM'000
31 March 2020					
Financial, takaful & business services	1,415	4,020	333	82	(5)
Transport, storage & communication	163	578	2,038	1,756	(20)
Agriculture, manufacturing, wholesale & retail trade	6,680	17,610	11,170	1,940	(2,394)
Construction	523	2,644	12,532	6,048	-
Household	23,310	66,260	48,641	60,873	(36,348)
Others	86	980	1	-	-
	<u>32,177</u>	<u>92,092</u>	<u>74,715</u>	<u>70,699</u>	<u>(38,767)</u>

3.0 Credit Risk (cont'd.)

3.3 Impaired Financing and Advances Analysis and Allowance for Expected Credit Losses (cont'd.)

Impaired financing and advances and allowance for expected credit losses analysed by significant geographical areas:

	Impaired financing and advances	12 months ECL (Stage 1)	Lifetime ECL Not-credit Impaired (Stage 2)	Lifetime ECL Credit Impaired (Stage 3)
	RM'000	RM'000	RM'000	RM'000
30 September 2020				
Northern region	22,932	7,569	7,920	9,557
Central region	143,624	59,207	91,801	39,732
Southern region	17,443	8,011	14,075	6,319
Sabah region	7,137	4,058	4,566	1,218
Sarawak region	2,128	803	614	470
	<u>193,264</u>	<u>79,648</u>	<u>118,976</u>	<u>57,296</u>
	Impaired financing and advances	12 months ECL (Stage 1)	Lifetime ECL Not-credit Impaired (Stage 2)	Lifetime ECL Credit Impaired (Stage 3)
	RM'000	RM'000	RM'000	RM'000
31 March 2020				
Northern region	24,885	3,798	7,149	11,072
Central region	173,305	23,364	65,581	51,670
Southern region	24,060	3,148	14,611	9,714
Sabah region	8,175	1,383	4,199	1,682
Sarawak region	2,144	484	552	577
	<u>232,569</u>	<u>32,177</u>	<u>92,092</u>	<u>74,715</u>

3.0 Credit Risk (cont'd.)

3.3 Impaired Financing and Advances Analysis and Allowance for Expected Credit Losses (cont'd.)

Movements in allowance for expected credit losses on financing and advances are as follows:

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	32,177	92,092	74,715	198,984
Transfer to Stage 1	35,605	(40,828)	(1,336)	(6,559)
Transfer to Stage 2	(15,327)	58,148	(6,014)	36,807
Transfer to Stage 3	(64)	(2,772)	6,508	3,672
New financial assets originated or purchased	10,030	16,646	1,329	28,005
Financial assets derecognised other than write-off	(7,914)	(19,753)	(2,313)	(29,980)
Changes due to change in credit risk	25,141	15,494	(1,524)	39,111
	47,471	26,935	(3,350)	71,056
Unwinding of discount	-	-	(1,975)	(1,975)
Total charge to/(write-back from) income statement	47,471	26,935	(5,325)	69,081
Write-off	-	(51)	(12,094)	(12,145)
At 30 September 2020	79,648	118,976	57,296	255,920

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2019	23,032	69,895	45,583	138,510
Transfer to Stage 1	9,779	(49,268)	(550)	(40,039)
Transfer to Stage 2	(15,292)	88,314	(29,801)	43,221
Transfer to Stage 3	(17)	(53,130)	103,693	50,546
New financial assets originated or purchased	22,190	26,224	6,939	55,353
Financial assets derecognised other than write-off	(9,007)	(24,059)	(9,259)	(42,325)
Changes due to change in credit risk	1,495	34,637	(324)	35,808
	9,148	22,718	70,698	102,564
Unwinding of discount	-	-	(2,799)	(2,799)
Total charge to income statement	9,148	22,718	67,899	99,765
Write-off	(3)	(521)	(38,767)	(39,291)
At 31 March 2020	32,177	92,092	74,715	198,984

3.0 Credit Risk (cont'd.)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach

The following tables represent the credit exposures by risk-weights and after credit risk mitigation:

30 September 2020 Risk- Weights	Exposures after netting and credit risk mitigation										Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns /Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and Multilateral Development Banks RM'000	Takaful Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	RRE Financing RM'000	Higher Risk Assets RM'000	Other Assets RM'000			
0%	2,224,373	-	5,277	-	361,870	-	-	-	-	2,591,520	-	
20%	-	332,385	5,032	-	725,337	-	100	-	-	1,062,854	212,571	
35%	-	-	-	-	-	-	3,477,527	-	-	3,477,527	1,217,134	
50%	-	-	4,412	-	1,097	4,805	1,043,078	-	-	1,053,392	526,696	
75%	-	-	-	-	-	1,741,746	3,343	-	-	1,745,089	1,308,817	
100%	-	-	-	7,758	3,572,017	879,067	487,124	-	52,169	4,998,135	4,998,135	
150%	-	-	-	-	11,643	8,395	-	731	-	20,769	31,154	
Total exposures	2,224,373	332,385	14,721	7,758	4,671,964	2,634,013	5,011,172	731	52,169	14,949,286	8,294,507	
Risk-weighted assets by exposures	-	66,477	3,212	7,758	3,735,097	2,200,372	2,228,325	1,097	52,169	8,294,507		
Average risk weight	0%	20%	22%	100%	80%	84%	44%	150%	100%	55%		
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (cont'd.)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach (cont'd.)

The following tables represent the credit exposures by risk-weights and after credit risk mitigation (cont'd.):

31 March 2020 Risk- Weights	Exposures after netting and credit risk mitigation									Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns /Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and Multilateral Development Banks RM'000	Takaful Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	RRE Financing RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
0%	1,950,709	-	-	-	297,653	-	-	-	-	2,248,362	-
20%	-	305,634	3	-	757,912	-	81	-	-	1,063,630	212,726
35%	-	-	-	-	-	-	3,463,531	-	-	3,463,531	1,212,236
50%	-	-	-	-	1,825	10,251	1,001,749	-	-	1,013,825	506,913
75%	-	-	-	-	-	1,773,041	122	-	-	1,773,163	1,329,872
100%	-	-	-	6,882	3,766,397	843,373	380,597	-	57,597	5,054,846	5,054,846
150%	-	-	-	-	11,467	11,795	-	296	-	23,558	35,337
Total exposures	1,950,709	305,634	3	6,882	4,835,254	2,638,460	4,846,080	296	57,597	14,640,915	8,351,930
Risk-weighted assets by exposures	-	61,127	1	6,882	3,936,092	2,195,972	2,093,815	444	57,597	8,351,930	
Average risk weight	0%	20%	20%	100%	81%	83%	43%	150%	100%	57%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-

3.0 Credit Risk (cont'd.)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach (cont'd.)

For the purpose of determining counterparty risk-weights, the Bank uses external credit assessments from Rating Agency Malaysia ("RAM"), Malaysian Rating Corporation ("MARC"), Standard and Poor's ("S&P"), Moody's, Fitch and Rating and Investment ("R&I" [See Note 1]). In the context of the Bank's portfolio, external credit assessments are mainly applicable to banks/financial institutions and rated corporations. The Bank follows the process prescribed under BNM Capital Adequacy Framework for Islamic Banks ("CAFIB")-Basel II to map the ratings to the relevant risk weights. The ratings are monitored and updated regularly to ensure that the latest and most appropriate risk-weights are applied in the capital computation.

The following tables show the rated credit exposures according to ratings by approved Eligible Credit Assessment Institutions ("ECAIs"), or as prescribed under the CAFIB:

30 September 2020

Exposure Class	Ratings by Approved ECAIs*						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
	R&I (Note 1)	AAA to AA- / a-1+, a-1	A+ to A- / a-2	BBB+ to BB- / a-3	B+ to D / b, c	Unrated	
On and Off Balance-Sheet Exposures							
RM'000							
(i) Exposures risk-weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 2)	-	2,224,372	-	-	-	2,224,372	
Public Sector Entities	-	196,813	-	-	-	196,813	
Corporates	-	361,869	-	-	-	361,869	
Banks, DFIs and Multilateral Development Banks	-	5,277	-	-	-	5,277	
	-	2,788,331	-	-	-	2,788,331	
(ii) Exposures risk-weighted using Banking Institutions long-term rating							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	9,444	9,444	
Exposures risk-weighted using Banking Institutions short-term rating							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	
	-	-	-	-	9,444	9,444	
(iii) Exposures risk-weighted using Corporate long-term rating							
Public Sector Entities	5,188	-	-	-	130,383	135,571	
Corporates	721,223	-	80,792	-	3,633,352	4,435,367	
Takaful Companies, Securities Firms & Fund Managers	-	-	-	-	7,758	7,758	
Exposures risk-weighted using Corporate short-term rating							
Public Sector Entities	-	-	-	-	-	-	
Corporates	-	-	-	-	-	-	
Takaful Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	
	726,411	-	80,792	-	3,771,493	4,578,696	

Note 1: "R&I" rating is not recognised for Islamic debt securities.

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework for Islamic Banks.

*Upper Range = Long-Term Rating,
Lower Range = Short-Term Rating

3.0 Credit Risk (cont'd.)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach (cont'd.)

The following tables show the rated credit exposures according to ratings by approved ECAIs (contd.):

31 March 2020

Exposure Class	Ratings by Approved ECAIs*						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
	R&I (Note 1)	AAA to AA- / a-1+, a-1	A+ to A- / a-2	BBB+ to BB- / a-3	B+ to D / b, c	Unrated	
On and Off Balance-Sheet Exposures							
(i) Exposures risk-weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 2)	-	1,950,709	-	-	-	1,950,709	
Public Sector Entities	-	188,874	-	-	-	188,874	
Corporates	-	297,653	-	-	-	297,653	
	-	2,437,236	-	-	-	2,437,236	
(ii) Exposures risk-weighted using Banking Institutions long-term rating							
Banks, DFIs and Multilateral Development Banks	-	3	-	-	-	3	
Exposures risk-weighted using Banking Institutions short-term rating							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	
	-	3	-	-	-	3	
(iii) Exposures risk-weighted using Corporate long-term rating							
Public Sector Entities	40,839	-	-	-	75,920	116,759	
Corporates	757,911	-	-	-	3,928,711	4,686,622	
Takaful Companies, Securities Firms & Fund Managers	-	-	-	-	6,882	6,882	
Exposures risk-weighted using Corporate short-term rating							
Public Sector Entities	-	-	-	-	-	-	
Corporates	-	-	-	-	-	-	
Takaful Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	
	798,750	-	-	-	4,011,513	4,810,263	

Note 1: "R&I" rating is not recognised for Islamic debt securities.

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework for Islamic Banks.

*Upper Range = Long-Term Rating,
Lower Range = Short-Term Rating

Note:

There is no outstanding securitisation contract in the Bank that requires disclosure of ratings and short term rating of securitisation by approved ECAIs.

3.0 Credit Risk (cont'd.)

3.5 Credit Risk Mitigation ("CRM")

As a practical approach towards mitigating credit risk, the Bank accepts a wide range of collaterals. Main types of collateral acceptable to the Bank include cash, guarantees, commercial and residential real estates, and physical collateral/ financial collateral, e.g. motor vehicles or shares. Guarantees are accepted only when the financial standing of the guarantors have been ascertained.

However, for capital computation purposes, the BNM guidelines apply more restrictive rules on collaterals that qualify as credit risk mitigants. As a result, not all of the collaterals accepted by the Bank can be used to reduce the Bank's capital adequacy requirement.

The following tables represent the Bank's credit exposure including off-balance sheet items under the standardised approach, the total exposure (after, where applicable, eligible netting benefits) that is covered by eligible guarantees and credit derivatives; and eligible collateral after haircuts, allowed under the Capital Adequacy Framework for Islamic Banks.

30 September 2020	Exposures before CRM	Exposures covered by guarantees/ credit derivatives	Exposures covered by eligible financial collateral	Exposures covered by other eligible collateral
Exposure Class	RM'000	RM'000	RM'000	RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,224,373	-	-	-
Public sector entities	314,385	-	-	-
Banks, DFIs and Multilateral Development Banks	14,525	-	-	-
Takaful Companies, Securities Firms and Fund Managers	3,738	-	-	-
Corporates	4,183,261	4,114	74,317	-
Regulatory retail	2,624,134	-	74,899	-
RRE financing	4,808,919	100	269	-
Higher risk assets	656	-	-	-
Other assets	52,169	-	-	-
Defaulted exposures	135,960	-	1,477	-
Total on-balance sheet exposures	14,362,120	4,214	150,962	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	798,422	-	60,296	-
Defaulted exposures	2	-	-	-
Total off-balance sheet exposures	798,424	-	60,296	-
Total on and off-balance sheet exposures	15,160,544	4,214	211,258	-

Note 1:

The exposures covered by guarantees/credit derivatives refer to the exposures guaranteed by eligible guarantor.

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3.0 Credit Risk (cont'd.)

3.5 Credit Risk Mitigation ("CRM") (cont'd.)

31 March 2020	Exposures	Exposures	Exposures	Exposures
Exposure Class	before CRM	covered by	covered by	covered by
	RM'000	guarantees/ credit derivatives	eligible financial collateral	other eligible collateral
	RM'000	RM'000	RM'000	RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	1,950,709	-	-	-
Public sector entities	301,634	-	-	-
Banks, DFIs and Multilateral Development Banks	3	-	-	-
Takaful Companies, Securities Firms and Fund Managers	6,862	-	-	-
Corporates	4,525,419	-	110,662	-
Regulatory retail	2,505,734	-	74,318	-
RRE financing	4,607,974	-	304	-
Higher risk assets	221	-	-	-
Other assets	57,597	-	-	-
Defaulted exposures	157,942	-	982	-
Total on-balance sheet exposures	14,114,095	-	186,266	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	769,323	-	56,439	-
Defaulted exposures	202	-	-	-
Total off-balance sheet exposures	769,525	-	56,439	-
Total on and off-balance sheet exposures	14,883,620	-	242,705	-

3.0 Credit Risk (cont'd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk

Off-balance sheet exposures of the Bank are mainly from the commitments to extend credit including the unutilised or undrawn portions of credit facilities.

The off-balance sheet exposures and their related counterparty credit risk of the Bank are as follows:

	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk- Weighted Assets
	RM'000	RM'000	RM'000	RM'000
30 September 2020				
<u>Credit-related exposures</u>				
Direct credit substitutes	194,101	-	194,101	183,011
Transaction-related contingent items	64,920	-	32,460	20,827
Short-term self-liquidating trade-related contingencies	20,171	-	4,034	3,786
Irrevocable commitments to extend credit:				
• maturity exceeding one year	229,526	-	114,763	72,936
• maturity not exceeding one year	2,265,334	-	453,066	359,198
	<u>2,774,052</u>	<u>-</u>	<u>798,424</u>	<u>639,758</u>
31 March 2020				
<u>Credit-related exposures</u>				
Direct credit substitutes	191,836	-	191,836	175,302
Transaction-related contingent items	60,380	-	30,190	18,213
Short-term self-liquidating trade-related contingencies	20,026	-	4,005	3,490
Irrevocable commitments to extend credit:				
• maturity exceeding one year	367,450	-	183,723	113,374
• maturity not exceeding one year	1,798,853	-	359,771	272,197
	<u>2,438,545</u>	<u>-</u>	<u>769,525</u>	<u>582,576</u>

4.0 Market Risk

Regulatory capital requirements

The risk-weighted assets and capital requirements for the various categories of risk under market risk are as follows:

	Risk- Weighted Assets RM'000	Capital Requirements RM'000
30 September 2020		
Profit rate risk		
• General profit rate risk	-	-
• Specific profit rate risk	-	-
	<u>-</u>	<u>-</u>
Foreign exchange risk	50	4
Option risk	-	-
	<u>50</u>	<u>4</u>
31 March 2020		
Profit rate risk		
• General profit rate risk	-	-
• Specific profit rate risk	-	-
	<u>-</u>	<u>-</u>
Foreign exchange risk	-	-
Option risk	-	-
	<u>-</u>	<u>-</u>

5.0 Rate of Return Risk in the Banking Book

The following tables present the Bank's projected sensitivity to a 100 basis point parallel shock to profit rates across all maturities applied on the Bank's profit sensitivity gap as at reporting date.

	30 September 2020 + 100 bps RM'000	31 March 2020 + 100 bps RM'000
Impact on net profit income		
Ringgit Malaysia	<u>32,094</u>	<u>29,763</u>
Impact on Economic value		
Ringgit Malaysia	<u>(51,328)</u>	<u>(39,177)</u>

6.0 Shariah Governance Disclosures

Shariah Non-Compliance Risk arises from the risk of failure to comply with Shariah rules and principles as determined by Shariah Advisory Council of Bank Negara Malaysia and the Bank's Shariah Committee. To manage the risks, the Bank has adopted the following guiding principles:

- (i) A sound Shariah Compliance Framework which governs the operations of the Bank and outlines the roles of key functionalities within the Bank, including but not limited to the Shariah risk management process. This is in line with the Shariah Governance Framework issued by BNM.
- (ii) The Board of Directors, assisted by the Shariah Committee and Senior Management, provides oversight on Shariah compliance aspects of the Bank's overall operations. This amongst others include:
 - Oversight and implementation of the Shariah Compliance Framework.
 - Regular review of Shariah non-compliant income and issues.
 - Addressing Shariah non-compliance findings.
 - Ensuring compliance with regulatory and internal requirements including disclosures.
- (iii) Appointment of a qualified Shariah Committee member who also serves as Board member; serving as a 'bridge' between the Board and the Shariah Committee.
- (iv) Ongoing Shariah reviews and training to raise risk awareness and ensure compliance to Shariah rules and principles. This includes:
 - Regular assessment on Shariah compliance in the activities and operations of the Bank. The findings of the review are reported to the Shariah Committee for deliberation and decision.
 - Performing research and studies on Shariah issues, including providing day-to-day Shariah advice and consultancy to relevant parties.
 - Conducting Shariah-related training and ongoing engagement with relevant parties to raise awareness on Shariah non-compliance risk.
- (v) Escalation and reporting processes of Shariah non-compliant income and issues governed through designated escalation channels, which include the Board and Shariah Committee.
- (vi) Periodic engagement between the Board and the Shariah Committee to discuss on Shariah research, Shariah compliance and scholar's view on Islamic banking activities.

Shariah Non-Compliant Income And Events

During the financial period, there were no Shariah non-compliance events detected from the ongoing reviews of the Bank's operational processes.